MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

BEC1844 – MACROECONOMICS

(All sections / Groups)

29 FEBRUARY 2020
9.00 a.m. - 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of FIVE (5) pages excluding cover page with Section A and Section B.
   Section A: 20 multiple choice questions [40 marks]
   Section B: 3 structured questions [60 marks]

2. Answer **ALL** questions in **Sections A & B.**

3. The answers for **Section A** should be shaded on the OMR sheet. The answers for **Section B** should be written in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS [40 MARKS]

Instruction: Answer ALL questions in this section. Shade the answers on the OMR sheet.

1. The "yardstick" people use to post prices and record debts is called _____.
   A. a medium of exchange
   B. a unit of account
   C. a store of value
   D. liquidity

2. Savings deposits are included in _____.
   A. M1 but not M2
   B. M2 but not M1
   C. M1 and M2
   D. neither M1 nor M2

3. Suppose a bank has a 10 percent reserve requirement, RM5, 000 in deposits, and has loaned out all it can given the reserve requirement, _____.
   A. it has RM50 in reserves and RM4, 950 in loans
   B. it has RM500 in reserves and RM4, 500 in loans
   C. it has RM555 in reserves and RM4, 445 in loans
   D. None of the above is correct.

4. Currency in circulation is part of _____.
   A. M1 only
   B. M2 only
   C. M3 only
   D. M1, M2, and M3

5. Checkable deposits are _____.
   A. included in M1
   B. not included in either M1 or M2
   C. considered to be a near money
   D. also called time deposits

6. The short-run relationship between inflation and unemployment is often called _____.
   A. the Classical Dichotomy
   B. Money Neutrality
   C. the Phillips curve
   D. the Keynesian cross

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7. The economy will move to a point on the short-run Phillips curve where unemployment is lower if _____.
   A. the inflation rate decreases
   B. the government increases its expenditures
   C. the Bank Negara Malaysia decreases the money supply
   D. None of the above is correct.

8. Assume that the consumption function is C = 100 + 0.8Y and investment (I) is RM100 billion. Thus, the equilibrium level of income is _____ billion.
   A. RM100.00
   B. RM500.00
   C. RM800.00
   D. RM1, 000.00

9. In the aggregate expenditures model, the most important determinant of consumption and saving is the _____.
   A. level of bank credit
   B. level of income
   C. interest rate
   D. price level

10. In an aggregate expenditures model with no government or foreign sectors, savings is equal to investment when output is _____.
   A. equal to the equilibrium level of output
   B. greater than the equilibrium level of output
   C. less than the equilibrium level of output
   D. constant

11. If 100 percent of any change in income is saved, the multiplier will be _____.
   A. equal to the marginal propensity to consume (MPC)
   B. 1
   C. zero
   D. infinitely large

12. If the marginal propensity to consume (MPC) is 0.9 in a private closed economy, a RM20 billion decline in investment spending will decrease _____.
   A. GDP by RM20 billion
   B. GDP by RM200 billion
   C. saving by RM80
   D. consumption by RM100 billion

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13. The government buys a bridge. The owner of the company that builds the bridge pays her workers. The workers increase their spending. Firms that the workers buy goods from increase their output. This type of effect on spending illustrates _____.
    A. the multiplier effect
    B. the crowding-out effect
    C. the Fisher effect
    D. the Phillips curve effect

14. A balanced budget occurs when _____.
    A. the national debt is reduced to zero Ringgit Malaysia
    B. a budget deficit during one year is matched by a budget surplus in the next year
    C. transfer payments equal tax receipts
    D. government expenditures equal tax revenues

15. Fiscal policy refers to the idea that aggregate demand is changed by changes in _____.
    A. the money supply
    B. government spending and taxes
    C. trade policy
    D. All of the above are correct.

16. The government purchases multiplier is defined as _____.
    A. MPC
    B. 1 - MPC
    C. 1/MPC
    D. 1/(1 - MPC)

17. When the government reduces taxes, which of the following decreases?
    A. Consumption
    B. Take-home pay
    C. Household saving
    D. None of the above is correct

18. Imagine that businesses in general believe that the economy is likely to head into recession and so they reduce capital purchases. Their reaction would initially shift _____.
    A. aggregate demand right
    B. aggregate demand left
    C. aggregate supply right
    D. aggregate supply left

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19. The term inflation is used to describe a situation in which _____.
    A. the overall level of prices in the economy is increasing
    B. incomes in the economy are increasing
    C. stock-market prices are rising
    D. the economy is growing rapidly

20. Demand-pull inflation _____.
    A. occurs when prices of resources rise, pushing up costs and the price level
    B. occurs when total spending exceeds the economy's ability to produce output at the existing price level
    C. occurs only when the economy has reached its absolute production capacity
    D. is also called cost-push inflation

SECTION B: STRUCTURED QUESTIONS (60 MARKS)

Instruction: Answer **ALL** questions in this section. Write your answers in the answer booklet provided.

Question 1

a) Explain any **TWO (2)** effects that cause the aggregate demand (AD) curve to slope downward. (8 marks)

b) Describe the **FOUR (4)** factors that may shift the aggregate demand (AD) curve to the right. Draw an appropriate graph to explain the situation. (12 marks)

[Total: 20 marks]

Question 2

a) A central bank has three main tools in its monetary policy to control the money supply in the economy. Discuss the **THREE (3)** monetary tools with examples. (15 marks)

b) Explain how an increase in government spending may lead to a crowding out effect. (5 marks)

[Total: 20 marks]

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Question 3

a) Explain the difference between the short-run and long-run Phillips curves.
(5 marks)

b) In ***Table 1*** below, state the direction of the variables that change in response to the events in the first column. [Note: Candidates are required to reproduce the ***Table 1*** in the answer booklet]

Table 1

	Malaysian real interest rate [rises/falls/ no change]	Malaysian domestic Investment [rises/falls/ no change]	Malaysian net capital outflow [rises/falls/ no change]	Malaysian real exchange rate of domestic currency [depreciates/ appreciates/no change]	Malaysian trade Balance [rises/falls/ no change]
i) Malaysia imposes import quotas to protect its domestic industry					
ii) Malaysian government approves a budget deficit					

(15 marks)
[Total: 20 marks]

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